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Superior Court of California

County of Los Angeles

SEP 18 2015

Sherri R. Carter, Executive Officer/Clerk

By Shaunya Bolden, Deputy

Attorneys for the People of the State of California

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF LOS ANGELES

THE PEOPLE OF THE STATE OF
CALIFORNIA, by and through the
COMMISSIONER OF BUSINESS
OVERSIGHT,

Plaintiff,

vs.

THE LEAGUE INC, a Nevada corporation; THE
LEAGUE COMPANY, INC.; a Nevada
corporation; THE LEAGUE COMPANY, INC.;
a California corporation; JAMES E. HARRIS, as
an individual; BEVERLY M. JOHNSON, as an
individual; TERRENCE DUCKETT, as an
individual; and DOES 1 through 10, inclusive,

Defendants.

Case No.: BC595248

**COMPLAINT FOR PERMANENT
INJUNCTION; CIVIL PENALTIES AND
ANCILLARY RELIEF**

**VIOLATIONS OF CORPORATIONS CODE
SECTION 25401
(FRAUD IN CONNECTION WITH THE
OFFER AND SALE OF SECURITIES)**

**VIOLATIONS OF ORDER ISSUED BY THE
COMMISSIONER OF BUSINESS
OVERSIGHT PURSUANT TO
CORPORATIONS CODE SECTIONS 25532
AND 25530 (a).**

1 THE PEOPLE OF THE STATE OF CALIFORNIA ("People"), by and through Jan Lynn
2 Owen, Commissioner of Business Oversight ("Commissioner"), acting to protect the public from
3 unlawful and fraudulent sale of securities, bring this action in the public interest. The People allege:

4 **VENUE AND JURISDICTION**

5 1. The Commissioner brings this action to enjoin Defendants The League Inc., a Nevada
6 corporation ("The League NV"); The League Company, Inc., a Nevada corporation; The League
7 Company, Inc., a California corporation ("The League CA"); James E. Harris, an individual; Beverly
8 M. Johnson, an individual; Terrence Duckett, an individual; and Does 1 through 10, inclusive
9 (collectively, "Defendants"); from violating provisions of the California Corporate Securities Law of
10 1968 (Corporations Code, §25000 *et seq.*) ("CSL") and to request necessary equitable and ancillary
11 relief.

12 2. The Commissioner is the head of the Department of Business Oversight
13 ("Department"). The Department is the state agency that regulates, among other things, the offer
14 and sale of securities in California. (Corporations Code, § 25100, *et seq.*)

15 3. The Commissioner brings this action pursuant to Corporations Code sections 25530
16 and 25535 and Government Code section 11180, *et seq.*, in her capacity as head of the Department.

17 4. Defendants have unlawfully offered or sold securities in violation of the CSL.
18 Defendants' unlawful offers and sales of securities took place within Los Angeles County and
19 outside the State of California. Violations of the CSL described herein occurred and will continue to
20 occur within Los Angeles County and elsewhere unless enjoined.

21 **DEFENDANTS**

22 5. Defendant The League NV is a Nevada corporation that was formed in April 2006
23 with a primary business address at 1158 26th Street, Suite 532, Santa Monica, California 90403.
24 Other business addresses for The League NV include: 950 2nd St, #206, Santa Monica, California
25 90403; P.O. Box 1652, Santa Monica, California 90406; 2118 Wilshire Boulevard, #984, Santa
26 Monica, California 90403; and 502 East John St. Room E, Carson City, Nevada 89706. At all
27 relevant times, The League NV transacted business within and from California directly and through
28 the individual defendants. These business activities included offering and selling securities in the

1 form of stock in The League NV to investors.

2 6. Defendant The League Company, Inc. is a Nevada corporation that was formed in
3 March 2000 with a primary business address at 1824 Fairburn, Suite 201, Los Angeles, California
4 90025. At all relevant times, The League Company, Inc. transacted business within and from
5 California directly and through the individual defendants. These business activities included
6 offering and selling securities in the form of stock in The League NV to investors.

7 7. Defendant The League CA is a California corporation that was formed in August
8 2000 with a primary business address at 950 2nd Street, Suite 206, Santa Monica, California 90403.
9 At all relevant times, The League CA transacted business within and from California directly and
10 through the individual defendants. These business activities included offering and selling securities
11 in the form of stock in The League NV to investors.

12 8. Defendant James E. Harris (“Harris”) is an individual and a resident of Los Angeles
13 County, California. At all relevant times, Harris conducted business in the county of Los Angeles in
14 various capacities, including as president and director of The League NV and the president of The
15 League CA. The People are informed and believe, and thereon allege, that at all relevant times,
16 Harris was a “control” person of The League NV and The League CA within the meaning of
17 Corporations Code sections 160, subdivision (a), and 25403.

18 9. Defendant Beverly M. Johnson (“Johnson”) is an individual and a resident of Los
19 Angeles County, California. At all relevant times, Johnson conducted business in the county of Los
20 Angeles in various capacities, including as secretary, treasurer, and director of The League NV. The
21 People are informed and believe, and thereon allege, that at all relevant times, Johnson was a
22 “control” person of The League within the meaning of Corporations Code sections 160, subdivision
23 (a), and 25403.

24 10. Defendant Terrence Duckett (“Duckett”) is an individual and a resident of Los
25 Angeles County, California. At all relevant times, Duckett conducted business in the county of Los
26 Angeles in various capacities, including as the chief investment officer of The League NV and as an
27 employed salesperson of The League NV. The People are informed and believe, and thereon allege,
28 that at all relevant times, Duckett was a “control” person of The League NV within the meaning of

1 Corporations Code sections 160, subdivision (a), and 25403.

2 11. Defendants DOES 1 through 10 are persons, corporations, partnerships, agents,
3 affiliates, employees of the Defendants, the attorneys and others who participated with them, who
4 have done, or will do acts otherwise alleged in this Complaint. The People are informed and believe,
5 and on such information and belief allege, that Defendants Does 1 through 10 inclusive, at all times
6 mentioned herein, have acted and are continuing to act in concert with the Defendants named herein,
7 and that each of them has participated in the acts and transactions which are the subjects of this
8 Complaint. The true names and capacities of Does 1 through 10, whether individual, corporate, or
9 otherwise, are unknown to the People, who therefore sue such Defendants under such fictitious
10 names, pursuant to the provisions of Code of Civil Procedure section 474. The People ask leave of
11 the court to amend the Complaint to allege the true names and capacities of such Defendants at such
12 time as the same have been ascertained.

13 12. The People are informed and believe, and thereon allege, that at all relevant times, the
14 individual Defendants named as officers, directors, agents or employees of the corporate entity
15 Defendants acted in such capacities in connection with the acts, practices and schemes of the
16 business as set forth below.

17 13. Whenever any allegation is made in the Complaint to “Defendants” doing any act, the
18 allegation shall mean the act of each Defendant acting individually, jointly, and severally and the
19 conspiring of these Defendants to so act. Each Defendant alleged to have committed any act did so
20 pursuant to and in furtherance of a common plan, scheme and conspiracy to violate the provisions of
21 the CSL, and as an agent for each and every co-Defendant.

22 14. Whenever any allegation is made in this Complaint to any of the corporate entity
23 Defendants doing any act, the allegation shall mean acts done or authorized by the officers,
24 managers, directors, agents, and employees of the corporate entity Defendants while actively
25 engaged in the management, direction, or control of the affairs of the corporate entity Defendants,
26 and while acting within the course and scope of their employment.

27 15. The People are informed and believe, and thereon allege, that at all relevant times,
28 each and every Defendant directly or indirectly controlled other co-Defendants by knowingly

1 inducing, or by knowingly providing substantial assistance to, other co-Defendants to violate the
2 provisions of the CSL, as alleged in the Complaint within the meaning of Corporations Code section
3 25403.

4 16. At all relevant times, each Defendant was the alter-ego, agent, servant, employee,
5 employer, partner and/or joint venture of each of their co-Defendants, and, in performing the acts
6 herein alleged, was acting within the course and scope of such relationship, agency and/or
7 employment with the advance knowledge, acquiescence or subsequent ratification of each and every
8 remaining co-Defendant when engaged in the conduct herein alleged.

9 17. The People are informed and believe, and thereon allege, that at all relevant times,
10 there is a unity of interest and ownership between Defendants such that any individuality and
11 separateness between Defendants has ceased to exist. Defendant The League NV was so influenced
12 and controlled by the individual Defendants in the conduct of its business and affairs that adherence
13 to the fiction of separate corporate and individual existence would serve to work an injustice upon
14 the public.

15 **STATEMENT OF FACTS**

16 18. In or around 2002, Harris and Johnson started The League CA. The League CA
17 purportedly manufactured and marketed athletic shoes and clothing under the brand name "The
18 League." The League CA operated in Los Angeles County. Harris and Johnson were the principal
19 officers and directors of The League CA.

20 19. Beginning in or around February 2005, Harris and Johnson commenced raising
21 money for The League CA by offering and selling securities in the form of stock in The League CA.

22 20. On December 26, 2006, pursuant to Corporations Code section 25532, the
23 Commissioner of the Department of Corporations¹ issued a Desist and Refrain Order
24 ("Commissioner's Order") directing Harris, Johnson, and The League CA to desist and refrain from
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26 ¹ Effective July 1, 2013 the Department of Corporations and Department of Financial Institutions combined
27 and became the Department of Business Oversight within the Business, Consumer Services and Housing
28 Agency pursuant to the Governor's Reorganization Plan (G.R.P.) No. 2 of 2012. (See Gov. Code, §§
12080.2, 12080.5.) The Commissioner of the Department of Corporations is now the Commissioner of
Business Oversight.

1 selling or offering for sale unqualified, non-exempt securities in violation of Corporations Code
2 section 25110 and from making, in connection with such offers and sales, untrue statements and
3 misrepresentations or omissions of material fact in violation of Corporations Code section 25401.

4 21. The Commissioner's Order further alleged that Harris, Johnson, and The League CA
5 made the following misrepresentations or omissions in connection with their unlawful offer and sale
6 of unqualified stock:

- 7 a. That Skechers USA, Inc., a prominent shoe manufacturer, was entering into a letter of
8 intent with Harris and Johnson to purchase The League CA;
- 9 b. That professional athletes would promote The League CA's line of shoes and athletic
10 apparel;
- 11 c. That The League CA operated a showroom in downtown Los Angeles;
- 12 d. That The League CA had accounts with Bloomingdale's, Footlocker and other
13 retailers of athletic shoes and apparel; and
- 14 e. That the corporate status of The League CA had been suspended on September 1,
15 2004 by the Franchise Tax Board.

16 22. Neither Harris, Johnson, nor The League CA requested a hearing on the
17 Commissioner's Order following proper service on January 12, 2007. The Commissioner's Order
18 became final 30 days thereafter, pursuant to Corporations Code section 25532.

19 23. Following issuance of the Commissioner's Order and with assistance from the
20 Department, the Los Angeles District Attorney's Office filed a criminal complaint against Harris and
21 Johnson on January 30, 2008, based on their offer and sale of The League CA stock; the same facts
22 that were the subject of the Commissioner's Order. The criminal complaint charged Harris and
23 Johnson with four counts of a sale of securities in violation of Corporations Code section 25110 and
24 charged Johnson with two counts of fraud in the sale of securities in violation of Corporations Code
25 section 25401.

26 24. On March 13, 2008, Harris and Johnson each pled guilty to one count of unlawfully
27 selling securities in violation of CSL section 25110 and were convicted in accordance with their
28 pleas ("2008 Convictions").

1 25. Johnson was sentenced to three years' probation and was ordered to pay \$25,500.00
2 in restitution to two victims who purchased stock in The League CA.

3 26. Harris was sentenced to one year probation and was ordered to pay \$25,500.00 in
4 restitution to two victims who purchased stock in The League CA.

5 27. Beginning in or around April 2006, and throughout the course of the criminal
6 proceedings in 2008, Harris and Johnson continued operating the business of The League CA
7 through a newly-formed corporation, The League NV. Harris and Johnson represented that The
8 League NV engaged in manufacturing and marketing athletic shoes and clothing under the brand
9 name "The League." Like The League CA, The League NV operated in Los Angeles County.
10 Harris and Johnson were also the principal officers and directors of The League NV, as they had
11 been for The League CA.

12 28. Despite the Commissioner's Order and the 2008 Convictions, Harris and Johnson
13 raised money for The League NV by offering and selling securities in the form of stock in The
14 League NV beginning at least by June 2010 and through March 2012.

15 29. At some point before June 2010, Harris, Johnson and The League NV hired Duckett
16 to call and meet with members of the public to offer them stock in The League NV.

17 30. Between October and November 2011, Duckett called potential investors and met
18 them in person in order to market The League NV stock. Duckett also held meetings and large
19 dinners for potential investors in Chicago and Las Vegas. At these meetings and dinners, Duckett
20 distributed sales presentations prepared by The League NV.

21 31. In connection with these offers and sales, Defendants omitted material facts by failing
22 to disclose to prospective investors the existence or the circumstances of the Commissioner's Order
23 and the 2008 Convictions.

24 32. Defendants also represented that persons who purchased The League NV stock would
25 receive periodic dividends from The League NV and represented that The League NV stock would
26 be a good investment.

1 33. However, persons who purchased The League NV stock never received any of the
2 dividends promised by Defendants. And, despite demands, no person who purchased stock in The
3 League NV was refunded any of their investment principal.

4 34. On June 26, 2015, Johnson entered into a Consent Order with the Securities
5 Department of the State of Illinois (“Consent Order”) relating to the conduct of The League NV.

6 35. In the Consent Order, Johnson acknowledged and agreed that, on behalf of The
7 League NV, Duckett had offered and sold stock in The League NV to four Illinois residents.
8 Johnson acknowledged and agreed that she was aware of these offers and sales by Duckett and failed
9 to register the stock sold as required by Illinois securities laws. Johnson acknowledged and agreed
10 that, as a result, she had violated the Illinois securities laws.

11 36. In the Consent Order, Johnson also acknowledged and agreed that she had failed to
12 disclose the Commissioner’s Order to four Illinois residents who purchased The League NV stock.
13 Johnson acknowledged and agreed that her failure to disclose the Commissioner’s Order violated an
14 Illinois securities law similar to California securities law, prohibiting the making of any untrue
15 statement of material fact or any omission to state a material fact necessary in order to make the
16 statements made, in light of the circumstances under which they were made, not misleading.

17 37. From approximately June 2010 to March 2012, The League CA, Harris, and Johnson
18 offered and sold securities in the State of California in the form of The League NV stock to at least
19 13 investors, raising a total of approximately \$503,063.00. Defendants made untrue statements,
20 misrepresentations, or omissions of materials facts in connection with those offers and sales in
21 violation of Corporations Code section 25401.

22 **FIRST CAUSE OF ACTION**

23 **VIOLATIONS OF CORPORATIONS CODE SECTION 25401**

24 **(Alleged Against All Defendants)**

25 38. The People incorporate by reference paragraphs 1 through 37 of this Complaint as
26 though fully set forth herein.

27 39. Corporations Code section 25401 provides in pertinent part:

28 It is unlawful for any person, in connection with the offer, sale, or
 purchase of a security, directly or indirectly, to ... make an untrue

statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading.

40. Defendants offered and sold The League NV stock in the state of California within the meaning of Corporations Code sections 25008 and 25017.

41. The League NV stock offered and sold by Defendants are securities. (Corp. Code § 25019.)

42. In connection with the offering and selling of The League NV stock, Defendants made untrue statements or misrepresentations of, and omitted to state, material facts to prospective investors. The untrue statements, misrepresentations, or omissions include, but are not limited to, the failure to disclose the existence and circumstances of the Commissioner's Order and the 2008 Convictions.

43. Defendants' untrue statements, misrepresentations, or omissions were of "material facts" within the meaning of Corporations Code section 25401.

44. Unless enjoined by this Court, Defendants will continue to violate Corporations Code section 25401.

SECOND CAUSE OF ACTION

VIOLATION OF THE COMMISSIONER'S ORDER

(Alleged Against Defendants Harris, Johnson And The League CA)

45. The People incorporate by reference paragraphs 1 through 44 of this Complaint as though fully set forth herein.

46. Corporations Code section 25532, subdivision (c), provides:

If, in the opinion of the commissioner, a person has violated or is violating Section 25401, the commissioner may order that person to desist and refrain from the violation.

47. Corporations Code section 25530, subdivision (a), provides, in pertinent part:

Whenever it appears to the commissioner that any person has engaged, is engaging, or is about to engage in any act or practice constituting a violation of any provision of this division or any rule or order hereunder,

1 the commissioner may in the commissioner's discretion bring an action in
2 the name of the people of the State of California in the superior court to
3 enjoin the acts or practices or to enforce compliance with this law or any
rule or order hereunder.

4 48. The Commissioner's Order was served on Defendants The League CA, Harris, and
5 Johnson on January 12, 2007. None of the parties subject to the Commissioner's Order requested a
6 hearing.

7 49. The Commissioner's Order prohibited Defendants The League CA, Harris,
8 and Johnson from offering and selling securities in the State of California in violation of
9 Corporations Code section 25401. In contravention of the Commissioner's Order, from
10 approximately June 2010 to March 2012, Defendants The League CA, Harris, and
11 Johnson offered and sold securities in the State of California in the form of The League
12 NV stock to at least 13 investors, raising a total of approximately \$503,063.00, and made
13 untrue statements, misrepresentations, or omissions of materials facts in connection with
14 those offers and sales in violation of Corporations Code section 25401.

15 50. Unless enjoined, Defendants will continue to violate the Commissioner's
16 Order.

17 **PRAYER FOR RELIEF**

18 WHEREFORE, the People pray for a final judgment against all Defendants and Does 1
19 through 10, inclusive, as follows:

20 **I. INJUNCTIVE RELIEF**

21 Plaintiff seeks a Permanent Injunction pursuant to California Corporations Code section
22 25530, subdivision (a), restraining and enjoining Defendants The League, Inc., a Nevada
23 corporation; The League Company, Inc., a Nevada corporation; The League Company, Inc., a
24 California corporation; James E. Harris; Beverly M. Johnson; Terrence Duckett; and Does 1 through
25 10, as may be subsequently be named, and each of them, their officers, directors, successors in
26 interest, agents, employees, attorneys in fact, and all persons acting in concert or participating with
27 them, or any of them, from directly or indirectly:

28 A. Violating Corporations Code section 25401 by offering to sell or selling any security
of any kind, including but not limited to, the securities described in this Complaint,

1 by means of any written or oral communication which includes any untrue statement
2 of material fact or omits or fails to state any material fact necessary in order to make
3 the statements made, in the light of the circumstances under which they are made, not
4 misleading, including but not limited to the misrepresentations and omissions alleged
5 in this Complaint;

6 B. Violating the Desist and Refrain Order issued by the former Department of
7 Corporations on December 26, 2006, pursuant to Corporations Code section 25532;

8 C. Removing, destroying, mutilating, concealing, altering, transferring, or otherwise
9 disposing of, in any manner, any books, records, computer programs, computer files,
10 computer printouts, correspondence, e-mails, phone text messages, brochures,
11 manuals, or any other "writings" or "documents" of any kind as defined under
12 Evidence Code section 250, relating to the transactions and course of conduct as
13 alleged in this Complaint, unless authorized by this Court;

14 D. Transferring, changing, disbursing, selling, dissipating, converting, pledging,
15 assigning, foreclosing, or otherwise disposing of any real property or personal
16 property in their possession or under their control, or in the possession of, or under
17 the control of, any of the Defendants, which property or other assets were derived or
18 emanated from directly, or indirectly, the sale and issuance of securities as alleged in
19 this Complaint, without leave of the Court; and

20 E. Withdrawing, transferring, changing, disbursing, dissipating, converting, pledging, or
21 assigning any funds or other assets which were derived or emanated, directly or
22 indirectly, from the offer or sale of securities as alleged in this Complaint, from any
23 accounts at any bank, savings and loan association, broker-dealer or any other
24 financial institution in the name of any of the Defendants, or controlled by any of the
25 Defendants, without leave of the Court.

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3 **II. RESCISSION, RESTITUTION, AND DISGORGEMENT**

4 Plaintiff seeks a Final Judgment requiring Defendants The League, Inc., a Nevada
5 corporation; The League Company, Inc., a Nevada corporation; The League Company, Inc., a
6 California corporation; James E. Harris; Beverly M. Johnson; Terrence Duckett; and such Does 1
7 through 10, as may be subsequently be named, and each of them, individually, jointly and severally,
8 to:

- 9 A. Rescind each and all of the unlawful transactions alleged in this Complaint, pursuant
10 to Corporations Code section 25530, subdivision (b), as shall be determined by this
11 Court to have occurred;
- 12 B. To pay full restitution to each person determined to have been subject to acts,
13 practices, or transactions which constitute violations of the CSL, in an amount of at
14 least \$506,063.00, or according to proof;
- 15 C. To disgorge to all known investors all benefits received, including but not limited to,
16 salaries, commissions, fees, profits and any other remuneration, derived directly or
17 indirectly, from the actions or practices which constitute violations of the CSL;
- 18 D. To pay the legal rate of interest on the principal amount invested by each and every
19 investor from the date of their investments to the date of judgment herein; and
- 20 E. To pay to the People attorney fees, investigative expenses, and costs in an amount
21 according to proof, pursuant to Corporations Code section 25530, subdivision (b).

22 **III. CIVIL PENALTIES**

23 Plaintiff seeks a Final Judgment requiring Defendants The League, Inc., a Nevada
24 corporation; The League Company, Inc., a Nevada corporation; The League Company, Inc., a
25 California corporation; James E. Harris; Beverly M. Johnson; and Terrence Duckett; and such Does
26 as may be subsequently named, to pay to the People, by and through the Department of Business
27 Oversight, the amount of \$25,000.00 as a civil penalty for each act in violation of the Corporate

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3 Securities Law, as authorized by Corporations Code section 25535; in an amount of at least
4 \$325,000.00 or according to proof.

5 Dated: September 17, 2015
6 Los Angeles, California

Respectfully submitted,

7 JAN LYNN OWEN
8 Commissioner of Business Oversight

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10 By: _____
11 UCHE L. ENENWALI
12 Senior Counsel
13 Attorneys for the People of California
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